

# Weekly Focus

## Rates will be cut – but how much and how soon?

**The strong decline in US and European bond yields continued in the second half of December**, as market expectations firmed for rapid and large interest rate cuts from central banks in 2024. This followed from dovish signals from the Fed earlier in December and signs that inflation is under control, and despite what seems to be attempts by some central bankers to moderate the expectations. In the first week of the new year, however, markets have moved a bit in the opposite direction, perhaps reflecting that the decline in bond yields and the accompanying increase in equity prices by themselves might stimulate economists so much that inflation rises. Our view continues to be that markets are pricing more rate cuts than are likely in 2024 in the US and the euro area, as we expect central banks to be cautious. Risks of inflation re-igniting are not gone, given tight labour markets and areas of high wage growth, for example. Our forecast is 100bp of rate cuts in the US this year beginning in March, and 75bp from the ECB beginning in June.

**The US added 216,000 jobs in December and hourly earnings grew 0.4%, both above expectations.** Job growth in November was revised down, but all in all, most data points towards a still-strong US labour market. Euro area inflation was 2.9% y/y in December as expected, up from 2.4% in November. The increase is mostly related to a lower comparison point for energy prices. The underlying momentum in core prices (measured as last three months compared to previous three months) is still declining and corresponds to 1.4% annual core inflation in the latest data, using ECB's seasonal adjustments. However, service price momentum is at 2.3%, which is likely still a worry for the ECB. PMI data from the US, Europe and Asia mostly suggest that the global manufacturing recession is coming to an end, and some leading indicators even suggest that we might be in for a modest manufacturing upswing.

**One inflation risk factor continues to be conflict in the Middle East**, where Houthi forces from Yemen have been attacking ships in the Red Sea. This has caused many shipping companies to send their ships around the Cape of Good Hope instead of through the Suez Canal, leading to significant increases in freight rates and shipping times. However, rates remain far below the heights seen in 2022, and we continue to see supply disruptions as much less of an inflation threat now than when excessive global demand strained supply chains to their outmost. Oil markets remain calm despite the risk that hostilities can escalate further, but of course, this could change.

**The most important data release during the coming week will likely be the US CPI for December.** Monthly core inflation was 0.3% in November and that is also our expectation for this release, still a bit to the high side for the Fed. Euro area unemployment is also interesting given the ECB's high degree of focus on the tight labour market, but indicators do not suggest that it increased in November from 6.5% level the month before. China will likely release another negative inflation print but with core inflation still positive, albeit low. We expect 2024 to be the year when Japan finally exits negative interest rates and that depends on price and wage growth, both of which we get data for this week. However, we will likely have to wait for the spring negotiations before seeing wages move much higher.

### Key global views

- We expect a soft landing for the Western economies but we see significant risk of a worse outcome.
- We expect volatile inflation ahead given slowing activity but strong labour markets.
- Central bank cutting cycle in 2024 will be cautious but continue into 2025.

### Key market movers

- Monday: Euro area retail sales, Germany factory orders, Swiss CPI
- Tuesday: euro area unemployment, Germany industrial production, Japan CPI
- Wednesday: Japan wage growth
- Thursday: US CPI
- Friday: US PPI, China CPI and trade data, UK monthly GDP

### Selected reading from Danske Bank

- *Geopolitical Radar - What to look out for in 2024*, December 22
- *Yield Outlook - Set for higher long yields in 2024*, December 19
- *Flash: New EU Fiscal Rules - A realistic compromise*, December 21

### Editor

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# Scandi market movers

- In **Denmark**, Tuesday will bring foreign trade and the current account statistics for November 2023. Pharmaceuticals drove a 5.6% m/m increase in exports in October, which has been the trend throughout the year except for a hiccup in September. It will be interesting to see whether this continues in November.

On Wednesday, we will get CPI inflation for December 2023. We expect to see that inflation has continued to climb higher to 1.1% in December from 0.6% in November. This primarily comes from a large decline in fuel and electricity prices in December 2022. We expect the underlying price pressure remained low as we have seen for the last 3-4 months.

Also on Wednesday we get industrial production for November 2023. Manufacturing production increased 1.3% m/m in October where pharmaceuticals had a negative contribution to production growth. That was a surprise, given the success of Novo Nordisk, and we expect either a revision or a large increase in the coming months. With the global manufacturing recession in mind, it is good news that manufacturing outside pharmaceuticals is doing better, and we look forward to the numbers for November.

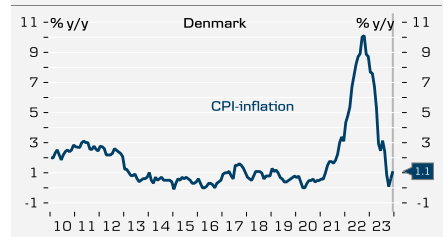
Finally, we will get the unemployment indicator for December 2023 on Friday. Unemployment increased by 300 persons in November. This was a very modest increase, but we are coming from a period with a very tight labour market. With the recent decline in activity and the rising real wage in mind, we expect that unemployment will continue to steadily increase.

- In **Sweden**, there is a lot of data to watch out for in the coming week. First out will be the December budget data from the Debt Office, which we expect to show a SEK92bn deficit. That said, note that the accumulated difference between forecast and actual numbers was a SEK3.6bn deficit in November. Hence, so far funding has been slightly higher than expected.

Furthermore, a slew of November indicators will be released at the same time on 10 December. Retail sales and household consumption should shed some light on how Black Friday sales might have affected consumer spending after gains in October. The production value indicator and new orders will add some colour to supply-side developments. All of these indicators, however, are included in the GDP indicator, which will be released at the same time. Real goods net exports already showed a significant surplus for November, making it quite likely that the GDP indicator will follow up the +1.0% m/m seasonally adjusted October increase with yet another positive gain. If so, there are strong indications that Q4 2023 GDP may have turned decidedly higher after two negative quarters.

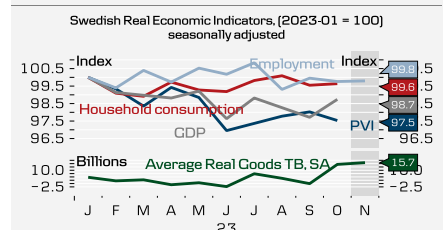
- Inflation has remained higher in **Norway** than in many other countries, also when looking at the underlying trend (monthly basis). This is probably due to several factors, including a weakening of the NOK, which has triggered higher direct and indirect price impulses. In addition, wage growth is relatively high, and many companies have also increased margins. While we continue to expect a disinflationary trend in 2024, we still believe core inflation held up at 5.6% y/y in December.

We expect CPI inflation was 1.1% y/y in December



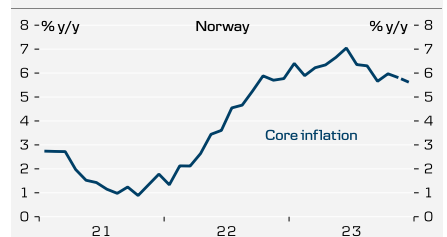
Sources: Statistics Denmark, Macrobond Financial, Danske Bank

Economic data likely improved in November



Source: Statistics Sweden, Macrobond Financial, Danske Bank

Norwegian inflation has remained too high



Source: Macrobond Financial, Danske Bank

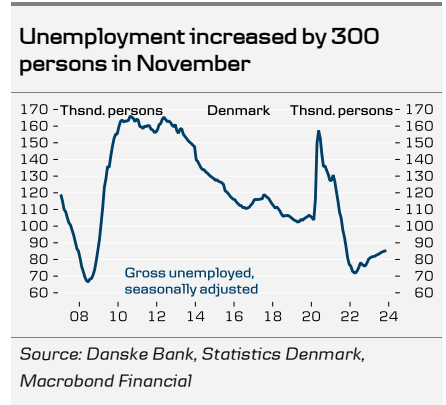
# Scandi update

## Denmark – modest increase in unemployment in November

In Denmark, unemployment rose to 3.9% in November, as 300 more persons were unemployed, compared to October. This is different from the preliminary unemployment indicator, which earlier showed a decrease of 500 persons. The latest development is more in line with the picture of the general economy, which is that of declining activity, coupled with rising real wages. It is a very modest increase, however, reflecting that we are coming from a period with a very tight labour market.

Danmarks Nationalbank did not intervene on the currency market in December. The FX reserve was reduced by 4.1 bn. DKK, as the government paid off net 0.1 bn. DKK in debt, and the bank sold 4.1 bn. DKK net foreign currency.

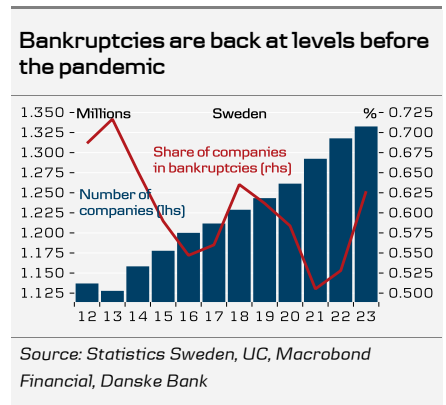
The number of bankruptcies in active companies was 237 in December similar to November, which means that the number for all of 2023 landed at 3,078, the highest since 2010. 32% of the bankruptcies were in businesses that had benefitted from VAT loans as part of the pandemic support package from the government and can to some extent be seen as delayed bankruptcies from previous years. However, there is clearly also pressure from stagnating demand and higher interest rates and other costs.



## Sweden – calm first week of the year with PMI and bankruptcies

The first week of 2024 was calm macro-wise in Sweden. The main statistic of interest was the PMI report. Manufacturing PMI was more or less unchanged and remained in contraction territory. However, Q4 2023 as a whole saw manufacturing PMI rise, which might indicate that the worst is now behind us. This is further indicated by the rise in the sub-index ‘production plans’. Services PMI, on the other hand, printed significantly better and reached neutral ground again, as it rose to 50 from 48.5, taking the composite PMI number to 49.7, which was the third consecutive monthly increase in a row. Services inflation remains one of the biggest tormentors for the Riksbank in its fight against inflation. Hence, the most positive development was that the services PMI subindex for prices declined to 57.9 from 59, moving closer to historically normal levels.

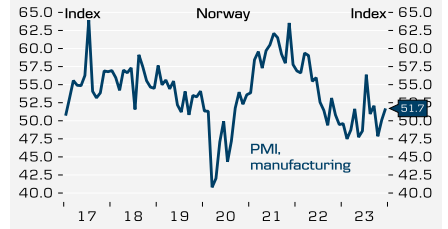
Other than that, both UC and Creditsafe published bankruptcy statistics, which were highlighted in the media since bankruptcy numbers were the highest since the Swedish financial crisis in the 1990s. As we have highlighted earlier, the increase is not as startling as it might sound. The number of bankruptcies should increase on average in the long run as the economy grows. However, as the chart on the right shows, the share of companies entering bankruptcy each year has started to reach pre-pandemic levels. This development should be viewed in light of the large number of companies that have been founded in recent years and the heavy competition they have been exposed to. Furthermore, a lot of them have only survived thanks to government support such as the deferred tax liabilities provided during the pandemic. Many of these companies would not have survived under normal circumstances. Creditsafe even stated that 30% of all companies filing for bankruptcy in 2023 had no turnover or did not provide financial statements at all. Hence, the bankruptcies have led to few additional unemployed people and mainly affect companies of less significance to the overall Swedish economy.



### Norway – oil-related sectors support manufacturing activity

The PMI rose to 51.7 in December and now signals a moderate recovery in the manufacturing sector. This is significantly stronger than what we see from similar indicators in other countries. Based on details from actual production figures and other indicators, we see many hints that this is due to a solid recovery in the oil-related industry, while the development is considerably weaker in the mainland industry. However, this development was already clearly visible in the December figures from the Regional Survey and does not prevent the overall outlook for the Norwegian economy remaining weak.

Manufacturing outlook improving in Norway



Source: Macrobond Financial, Danske Bank

# Calendar – 8-12 January 2024

During the week				Period	Danske Bank	Consensus	Previous
Sun 07	CNY	Foreign exchange reserves	USD bn	Dec		3206.0	3171.8
Monday, January 8, 2024				Period	Danske Bank	Consensus	Previous
8:00	NOK	Manufacturing production	m/m y/y	Nov			0.6% -0.6%
8:00	NOK	Industrial production	m/m y/y	Nov			-0.6% -17.7%
8:00	DEM	Factory orders	m/m y/y	Nov		1.0% -3.6%	-3.7% -7.3%
8:30	CHF	CPI	m/m y/y	Dec		-0.1% 1.6%	-0.2% 1.4%
10:30	EUR	Sentix Investor Confidence	Index	Jan		-15.5	-16.8
11:00	EUR	Retail sales	m/m y/y	Nov		-0.1% -1.3%	0.1% -1.2%
11:00	EUR	Industrial confidence	Net bal.	Dec		-9.5	-9.5
11:00	EUR	Economic confidence	Index	Dec		94.1	93.8
11:00	EUR	Consumer confidence, final	Net bal.	Dec			-15.1
11:00	EUR	Service confidence	Net bal.	Dec		5.2	4.9
18:00	USD	Fed's Bostic speaks					
21:00	USD	Consumer credit	USD bn	Nov		9.5	5.1
Tuesday, January 9, 2024				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Dec		10.1%	10.0%
-	PLN	Polish central bank rate decision	%		5.75%	5.75%	5.75%
0:30	JPY	Tokyo CPI Ex-Fresh Food y/y	y/y	Dec		2.1%	2.3%
0:30	JPY	Tokyo CPI Ex-Fresh Food, Energy y/y	y/y	Dec		3.5%	3.6%
7:45	CHF	Unemployment	%	Dec		2.2%	2.1%
8:00	SEK	Budget balance	SEK bn	Dec			29
8:00	DKK	Trade balance ex ships	DKK bn	Nov			5.1
8:00	DKK	Exports	m/m	Nov			510.0%
8:00	DKK	Current account (nsa sa)	DKK bn	Nov			... 18.9
8:00	DEM	Industrial production	m/m y/y	Nov		0.3% -3.9%	-0.4% -3.5%
9:00	CHF	Foreign Currency Reserves	CHF bn	Dec			641.7
11:00	EUR	Unemployment	%	Nov	6.5%	6.5%	6.5%
12:00	USD	NFIB small business optimism	Index	Dec		90.5	90.6
14:30	USD	Trade balance	USD bn	Nov		-64.8	-64.3
Wednesday, January 10, 2024				Period	Danske Bank	Consensus	Previous
0:30	JPY	Labour cash earnings	y/y	Nov		1.5%	1.5%
8:00	DKK	Industrial production	m/m	Nov			1.3%
8:00	NOK	Core inflation	m/m y/y	Dec	0.2% 5.6%	... 5.6%	-0.2% 5.8%
8:00	SEK	Retail sales s.a.	m/m y/y	Nov			1.4% -1.0%
8:00	SEK	Industrial orders	m/m y/y	Nov			-4.8% -0.4%
8:00	SEK	Private Sector Production	m/m y/y	Nov			-0.5% -2.1%
8:00	SEK	Household consumption	m/m y/y	Nov			0.1% -0.2%
8:00	NOK	CPI	m/m y/y	Dec			0.5% 4.8%
8:00	NOK	PPI	m/m y/y	Dec			-0.3% -15.6%
8:00	DKK	CPI	m/m y/y	Dec	-0.1% 1.1%		-0.3% 0.6%
8:45	FRF	Industrial production	m/m y/y	Nov		0.0% 1.0%	-0.3% 1.8%
16:30	USD	DOE U.S. crude oil inventories	K				-5503
21:15	USD	Fed's Williams speaks					
Thursday, January 11, 2024				Period	Danske Bank	Consensus	Previous
6:00	JPY	Leading economic index, preliminary	Index	Nov		107.9	108.9
10:00	EUR	ECB Publishes Economic Bulletin					
14:30	USD	Initial jobless claims	1000				202
14:30	USD	CPI headline	m/m y/y	Dec	0.2% 3.2%	0.2% 3.3%	0.1% 3.1%
14:30	USD	CPI core	m/m y/y	Dec	0.3% 3.8%	0.2% 3.8%	0.3% 4.0%
20:00	USD	Budget statement	USD bn	Dec			-314.0
Friday, January 12, 2024				Period	Danske Bank	Consensus	Previous
2:30	CNY	CPI	y/y	Dec	-0.3%	-0.4%	-0.5%
2:30	CNY	PPI	y/y	Dec		-2.6%	-3.0%
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	GBP	Monthly GDP estimate	m/m q/q	Nov		0.002 -0.001	-0.003 0
8:00	GBP	Index of services	m/m 3m/3m	Nov		0.002 0.002	-0.002 0.001
8:45	FRF	Household consumption	m/m y/y	Nov			-0.9% -1.3%
8:45	FRF	HICP, final	m/m y/y	Dec		0.1% 4.1%	0.1% 4.1%
9:00	ESP	HICP, final	m/m y/y	Dec			0.0% 3.3%
14:30	USD	PPI	m/m y/y	Dec		0.2% 1.4%	0.0% 0.9%
14:30	USD	PPI core	m/m y/y	Dec		0.2% 2.0%	0.0% 2.0%
16:00	USD	Fed's Kashkari speaks					

Source: Danske Bank

## Macroeconomic forecast

### Macro forecast. Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Denmark	2023	1.1	1.0	1.2	-4.6	10.3	8.7	3.3	4.1	2.8	2.0	29.7	10.5
	2024	1.0	1.8	2.0	-0.4	3.6	5.4	2.0	5.7	3.1	1.0	27.9	11.5
	2025	1.6	1.7	1.6	2.2	1.6	1.8	1.9	3.6	3.3	0.7	26.5	11.5
Sweden	2023	-0.2	-1.7	2.3	-1.0	2.6	0.7	8.6	4.0	7.6	-0.4	29.0	4.7
	2024	1.3	1.1	0.9	1.3	2.9	2.9	2.3	3.3	8.2	-0.8	29.0	4.8
	2025	1.8	2.0	1.5	2.3	3.2	3.6	1.0	2.5	8.0	-0.8	29.0	4.6
Norway	2023	1.1	-1.0	2.0	0.5	4.0	3.0	5.6	5.4	1.8	-	-	-
	2024	1.1	1.2	1.3	4.0	2.0	1.8	3.0	4.4	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-

### Macro forecast. Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Euro area	2023	0.5	0.4	0.0	0.9	0.2	-0.3	5.5	5.6	6.5	-3.2	90.6	2.5
	2024	0.5	0.6	0.7	0.6	1.7	2.0	2.4	4.6	6.8	-3.0	89.9	2.0
	2025	1.2	1.1	0.8	1.5	2.7	2.6	2.1	3.7	7.1	-2.8	88.8	2.4
Finland	2023	-0.5	-0.5	3.0	-5.5	-0.5	-4.5	6.2	4.0	7.3	-2.8	73.8	-0.7
	2024	0.3	0.5	0.2	0.0	1.0	1.5	1.9	3.4	7.8	-3.0	75.3	-0.3
	2025	1.9	1.2	0.2	4.0	3.0	2.0	1.5	2.5	7.2	-2.7	75.4	0.0

### Macro forecast. Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
USA	2023	2.4	2.1	3.9	0.4	1.7	-2.1	4.1	4.3	3.7	-5.8	124.6	-3.0
	2024	1.1	0.2	3.3	3.1	-1.7	0.4	2.4	3.2	4.4	-5.8	126.8	-2.8
	2025	1.6	0.7	2.0	5.4	3.8	4.2	2.5	2.5	4.4	-5.8	128.6	-2.6
China	2023	5.4	6.6	-	4.6	-	-	0.5	-	5.3	-7.5	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	1.0	-	5.2	-7.2	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.0	91.8	1.1
UK	2023	0.5	-	-	-	-	-	7.4	-	4.2	-	-	-
	2024	0.0	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.0	-	-	-	-	-	1.9	-	4.9	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % of GDP.

# Financial forecast

Bond and money markets										
		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD*	04-Jan	5.50	-	4.21	3.59	0.91	-	6.81	10.31	10.21
	+3m	5.25	-	4.15	3.75	0.91	-	6.78	10.64	10.36
	+6m	5.00	-	4.05	3.85	0.93	-	6.96	11.31	10.84
	+12m	4.50	-	3.95	3.85	0.95	-	7.10	11.52	11.05
EUR	04-Jan	4.00	3.88	2.88	2.57	-	1.10	7.4577	11.30	11.19
	+3m	4.00	3.84	2.85	2.55	-	1.10	7.4550	11.70	11.40
	+6m	3.75	3.64	2.70	2.70	-	1.07	7.4500	12.10	11.60
	+12m	3.25	3.17	2.55	2.75	-	1.05	7.4500	12.10	11.60
JPY	04-Jan	-0.10	-	-	-	0.006	0.007	4.71	7.13	7.06
	+3m	0.00	-	-	-	0.007	0.007	4.88	7.65	7.46
	+6m	0.00	-	-	-	0.007	0.007	5.16	8.38	8.03
	+12m	0.00	-	-	-	0.007	0.008	5.38	8.73	8.37
GBP*	04-Jan	5.25	-	4.15	3.49	1.16	1.06	8.64	13.10	12.97
	+3m	5.25	-	4.25	3.50	1.14	1.25	8.47	13.30	12.95
	+6m	5.00	-	4.10	3.55	1.12	1.20	8.37	13.60	13.03
	+12m	4.50	-	3.95	3.60	1.12	1.18	8.37	13.60	13.03
CHF	04-Jan	1.75	-	-	-	1.07	1.18	8.01	12.14	12.02
	+3m	1.75	-	-	-	1.05	1.16	7.85	12.32	12.00
	+6m	1.50	-	-	-	1.06	1.14	7.93	12.87	12.34
	+12m	1.00	-	-	-	1.06	1.12	7.93	12.87	12.34
DKK	04-Jan	3.60	3.88	3.01	2.73	0.134	0.147	-	1.52	1.50
	+3m	3.60	3.80	2.96	2.67	0.134	0.148	-	1.57	1.53
	+6m	3.35	3.56	2.80	2.80	0.134	0.144	-	1.62	1.56
	+12m	2.85	3.04	2.65	2.85	0.134	0.141	-	1.62	1.56
SEK	04-Jan	4.00	4.07	2.97	2.44	0.089	0.098	0.67	1.01	-
	+3m	4.00	4.12	2.70	2.50	0.088	0.096	0.65	1.03	-
	+6m	3.75	3.91	2.50	2.60	0.086	0.092	0.64	1.04	-
	+12m	3.25	3.41	2.50	2.75	0.086	0.091	0.64	1.04	-
NOK	04-Jan	4.50	4.77	3.99	3.43	0.089	0.097	0.66	-	0.99
	+3m	4.50	4.68	3.80	3.20	0.085	0.094	0.64	-	0.97
	+6m	4.25	4.26	3.60	3.25	0.083	0.088	0.62	-	0.96
	+12m	3.25	3.45	3.40	3.30	0.083	0.087	0.62	-	0.96

\*Notes: GBP swaps are SONIA, USD swaps are SOFR

Commodities												
	04-Jan	2023				2024				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	78	82	78	86	83	80	80	80	80	82	80	

Source Danske Bank

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Las Olsen, Chief Economist.

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